Notes to the Accounts

for the year ended 31 December 2006

35. Awards to employees of rights to share-based payments (continued)

The fair value of options granted during the year, determined using the stochastic valuation model was £0.1 million (2005: £0.6 million) and the weighted average fair value was £2.51 (2005: £1.81) per option. The significant inputs into the model were: a weighted average share price of £10.85 (2005: £7.11) at the grant date; the exercise price as shown above; volatility of 21.4 per cent. (2005: 27.1 per cent.) calculated on the Exponentially Weighted Moving Average basis; option life based on the expected exercise behaviour linked to share price and period since grant assuming options exercisable between years three and ten; dividend yield of 2.0 per cent. (2005: 2.7 per cent.); and annual risk-free interest rate of 4.4 per cent. (2005: 4.8 per cent.).

(b) Equity Compensation Plan

Under the Equity Compensation Plan, rights over 3,555,225 ordinary (2005: nil) and 40,853 non-voting ordinary (2005: 3,272,442) shares were granted during the year ended 31 December 2006. The weighted average fair value of £9.99 per ordinary (2005: £nil) and £9.47 per non-voting ordinary (2005: £6.46) share was calculated using the market value of the shares at the grant date, discounted for dividends foregone over the average holding period of the award.

During 2006, the Group changed the vesting conditions for a small number of employees, not including any executive Director, for certain of its outstanding vested Equity Compensation Plan share awards. The vesting dates were changed by extending to 6 March 2009. The fair value of the awards were unchanged.

(c) Cash-settled share-based awards

The Group issues to certain employees cash-settled share-based awards that require the Group to pay the intrinsic value of the award to the employee on the date of exercise. At 31 December 2006, the total carrying amount of liabilities arising from cash-settled share-based awards at the balance sheet date was £3.4 million (2005: £3.0 million). The total intrinsic value at 31 December 2006 of liabilities for which the counterparty's right to cash or other assets had vested by that date was £1.2 million (2005: £1.0 million).

(d) Share Incentive Plan

The employee monthly share purchase plan is open to most UK-based employees and provides free shares from the Group to match the employee purchase up to a maximum of £50 per month. Pursuant to these plans the Group issued 20,371 ordinary shares in 2006 (2005: nil), at a weighted average share price of £9.91 (2005: £nil). A charge of £0.2 million (2005: £nil) will be expensed over a vesting period of one year.

The Group recognised total expenses of £28.6 million (2005: £25.3 million) arising from share-based payment transactions during the year of which £27.5 million (2005: £23.3 million) were equity-settled share-based payment transactions.

36. Events after the balance sheet date

On 14 December 2006, Schroders plc announced that it had reached agreement to acquire interests representing 99.7 per cent. of the share capital of Aareal Asset Management GmbH and its subsidiaries ('AAM'), a pan-European property asset manager based in Germany. Regulatory approval for the acquisition was received on 28 February 2007.

Under the terms of the agreement, Schroders paid €27.9 million (£18.8 million) in cash on completion to Aareal Bank AG ('Aareal'), the sole owner of AAM. Schroders also acquired certain investments at a cost of €23.8 million (£16.0 million) from Aareal in the underlying funds managed by AAM and may acquire further investments managed by AAM for up to €29.8 million (£20.1 million) in the event that they are not sold by Aareal prior to 31 March 2007.

The net tangible assets acquired are approximately €6.0 million (£4.0 million), although, at the date these financial statements were authorised for issue, completion accounts had not yet been finalised. Consequently, it is impracticable to disclose further information regarding assets and liabilities acquired or differences between carrying amounts of such items immediately before and after acquisition.

37. Related party transactions

(a) Transactions between related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties, excluding compensation, are disclosed below:

	2006				
	Revenues £mn	Interest receivable £mn	Expenses £mn	Amounts owed by related parties £mn	Amounts owed to related parties £mn
Associates	1.0	–	(0.3)	–	–
Key management personnel	0.1	–	(1.0)	–	(1.2)

37. Related party transactions (continued)

	2005				
	Revenues £mn	Interest receivable £mn	Expenses £mn	Amounts owed by related parties £mn	Amounts owed to related parties £mn
Associates	–	0.7	–	–	–
Key management personnel	0.1	–	(0.3)	–	(5.1)

Transactions with related parties were made at market rates. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense for bad or doubtful debts has been recognised in the year in respect of the amounts owed by related parties.

(b) Key management personnel compensation
The remuneration of key management personnel during the year was as follows:

	2006 £mn	2005 £mn
Short-term employee benefits	12.7	11.8
Post-employment benefits	0.6	0.7
Other long-term benefits	3.3	5.2
Share-based payments	5.7	7.5
	22.3	25.2

The remuneration of key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market rates. The remuneration policy is described in more detail in the remuneration report on page 26.

38. Acquisitions

On 3 May 2006, the Group acquired 100 per cent. of the issued share capital of NewFinance Capital Holdings Limited for consideration of £57.4 million. This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Book value/ fair value £mn
Net assets acquired:	
Property, plant and equipment	0.3
Non-current asset investments	0.1
Associates	0.1
Cash at bank	6.8
Debtors	1.8
Creditors	(5.8)
	3.3
Goodwill	43.6
Intangible assets	10.5
	57.4
Satisfied by:	
Cash	19.8[1]
Deferred consideration	37.6
Total consideration	57.4

[1] Includes acquisition costs of £1.1 million.

Excluding the acquisition of intangible assets of £10.5 million, there were no material differences between the fair value and the carrying value of the assets and liabilities on acquisition. The carrying value of the intangible assets immediately prior to acquisition was £nil.

Notes to the Accounts

for the year ended 31 December 2006

38. Acquisitions (continued)

Deferred consideration is stated at its fair value at the date of acquisition and consists of a notional £20.6 million investment in funds managed by NewFinance Capital, the award of non-voting ordinary shares in Schroders plc with a value of £15.1 million and deferred cash payments of £1.9 million. Deferred consideration of £36.5 million is due to be paid in equal amounts at the first, second and third anniversary of the date of completion, subject to certain non-performance related criteria. The remaining deferred cash balance of £1.1 million is payable within ten working days of agreement between the parties of the audited completion accounts. The award of deferred shares is classified within equity on the face of the balance sheet as 'other reserves'.

Additional contingent cash consideration of £20.1 million is payable provided certain stringent performance criteria are met. The Directors consider that the recognition criteria as set out in IFRS 3 have not yet been met and the contingent consideration has therefore not been provided for in these financial accounts. The Directors will continue to review performance under the terms of the acquisition agreement to determine over time whether such contingent consideration should be recognised for consolidation purposes.

The goodwill arising on the acquisition of NewFinance Capital Holdings Limited is attributable to the anticipated profitability of the hedge fund of funds business acquired (see note 9). The intangible assets represent values attributed to fund management contracts acquired (see note 10).

The result contributed by NewFinance Capital Holdings Limited and its subsidiaries in the period between the date of acquisition and the balance sheet date was a profit of £2.4 million before tax.

If the acquisition had been completed on 1 January 2006, an aggregation of the Group's gross profit for the period and that of the acquiree would have been £806.3 million, and the profit before tax for the period on the same basis would have been £292.8 million. The Directors note that such aggregations ignore the increased effects of the integration costs and synergistic benefits of the acquisition that would arise over the year since 1 January 2006.

39. Acquisitions and disposals of consolidated funds

As described in note 1(c), the Group is in a position whereby it could control a number of its own funds in which it has seed capital investments. These funds are consolidated unless they are designated as being held for sale. During the year, a number of funds fell under the control of the Group and were consolidated as acquisitions. Similarly, a number of funds ceased to be controlled by the Group in the year and were deconsolidated as they were either deemed to be disposals as a result of the dilution of the Group's existing holdings or the investments were sold.

Net assets acquired on the acquisition of a controlled fund impact on the Group's balance sheet to the extent that the Group consolidates the net assets of the minority interests and records a non-equity minority interest creditor equal to this value. The net assets acquired in the table below therefore represent those assets acquired attributable to minority interests.

Net assets disposed of when a previously consolidated fund ceases to be controlled by the Group represent either the disposal for cash of an existing investment or the deemed disposal through dilution of those net assets formerly attributable to minority interests of the Group.

Details of such assets and liabilities acquired and disposed of during the year are as follows:

	Acquisitions £mn	Disposals £mn	Net £mn
Cash	0.4	(4.1)	(3.7)
Debt securities	25.7	(29.1)	(3.4)
Derivative assets	0.2	(0.5)	(0.3)
Equities	2.4	(6.4)	(4.0)
Non-equity minority interests (see note 32)	28.7	(40.1)	(11.4)

The acquisitions give rise to an initial cash outflow representing the purchase of the investments. Such cash flows are recorded within net purchases of/proceeds from current asset investments for the purposes of the Group's consolidated cash flow statement. Disposals only have a related cash flow effect where the Group sells its investment in a fund. Such cash flows are recorded within net purchases of/proceeds from current asset investments. In the majority of cases, there will be a deemed disposal: the Group will not sell its investment, but will cease to have control of a fund as a result of other investors' holdings exceeding that of the Group.

Details of cash flows in the year arising from the acquisition and disposal of controlled funds are as follows:

	£mn
Acquisitions of controlled funds	53.8
Disposals of controlled funds	(10.3)
Net purchase of controlled funds	43.5

Schroders plc balance sheet

31 December 2006

	Notes	2006 £mn	2005 £mn
Non-current assets			
Investments in subsidiaries	45	2,585.0	2,585.0
Deferred tax	49	5.9	11.4
Trade and other receivables	46	16.8	39.4
		2,607.7	2,635.8
Current assets			
Trade and other receivables	46	75.1	37.8
Cash and cash equivalents	47	4.8	0.8
		79.9	38.6
Total assets		2,687.6	2,674.4
Equity			
Called up share capital	53	293.9	298.5
Share premium account	53	36.4	32.1
Capital reserves	55	1,406.4	1,401.2
Own shares held	54	(71.9)	(44.0)
Retained profits	55	670.4	800.8
Equity attributable to equity holders of the Company		2,335.2	2,488.6
Non-current liabilities			
Deferred tax	49	–	2.6
Trade and other payables	51	6.1	7.4
		6.1	10.0
Current liabilities			
Financial liabilities	48	0.3	4.2
Provisions	50	3.9	3.9
Current tax		–	0.5
Trade and other payables	51	342.1	167.2
		346.3	175.8
Total equity and liabilities		2,687.6	2,674.4

Approved by the Board of Directors on 8 March 2007

Jonathan Asquith
Bruno Schroder
} Directors